

The Children's Home Society of Florida and Subsidiaries

Consolidated Financial Report
June 30, 2010 and 2009

Contents

Independent Auditor's Report on the Financial Statements	1
---	---

Financial Statements	
Consolidated statements of financial position	2
Consolidated statements of activities	3
Consolidated statements of functional expenses	4 – 9
Consolidated statements of cash flows	10 – 11
Notes to consolidated financial statements	12 – 28

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29 – 30
--	---------



Independent Auditor's Report

To the Audit Committee
The Children's Home Society of Florida
Winter Park, Florida

We have audited the accompanying consolidated statements of financial position of The Children's Home Society of Florida and Subsidiaries as of June 30, 2010 and 2009, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of The Children's Home Society of Florida and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Children's Home Society of Florida and Subsidiaries as of June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010 on our consideration of The Children's Home Society of Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Orlando, Florida
October 29, 2010

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 13,280,580	\$ 12,322,177
Accounts receivable, net	12,357,774	11,815,964
Prepaid expenses and other assets	2,469,279	2,727,199
Investments	5,208,542	5,025,083
Restricted cash and certificate of deposit	192,343	2,136,937
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	13,130,360	11,692,706
Property and equipment, net	38,428,553	37,198,364
Total assets	\$ 85,067,431	\$ 82,918,430
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,173,287	\$ 1,881,306
Accrued expenses	11,045,452	10,355,288
Pension liability	11,221,679	9,160,140
Held in custody for account of others	518,983	594,887
Deferred revenue and other liabilities	1,605,566	1,083,113
Capital lease obligations	135,248	366,288
Long-term debt	17,230,014	18,396,759
Total liabilities	43,930,229	41,837,781
Commitments and Contingencies (Notes 9, 10 and 12)		
Net Assets:		
Unrestricted	27,404,079	28,784,239
Temporarily restricted	5,993,756	4,699,418
Permanently restricted	7,739,367	7,596,992
Total net assets	41,137,202	41,080,649
Total liabilities and net assets	\$ 85,067,431	\$ 82,918,430

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities
Years Ended June 30, 2010 and 2009

	2010	2009
Changes in unrestricted net assets:		
Public support:		
United Way	\$ 2,022,453	\$ 2,324,978
Bequests, contributions and special events	7,283,017	8,654,422
Total public support	9,305,470	10,979,400
Revenue from service contracts	93,030,880	93,212,085
Adoptive and other service fees	1,692,758	1,613,426
Investment income	181,044	244,377
Realized loss on sale of investments	(165,747)	(25,709)
Change in unrealized appreciation (depreciation) of investments	421,942	(880,764)
Other revenue	831,809	710,500
Total public support and unrestricted revenues	105,298,156	105,853,315
Net assets released from restrictions by satisfaction of program restrictions	1,201,209	862,777
Total public support, unrestricted revenues and other support	106,499,365	106,716,092
Expenses:		
Program services	89,224,986	90,798,015
Supporting services	15,361,096	17,043,872
Total expenses	104,586,082	107,841,887
Increase (decrease) in unrestricted net assets before other changes	1,913,283	(1,125,795)
Other changes:		
Unrealized loss on interest rate swap	(756,755)	(1,153,400)
Pension related changes other than net periodic benefit cost	(2,536,688)	(2,373,568)
Decrease in other changes	(3,293,443)	(3,526,968)
Decrease in unrestricted net assets	(1,380,160)	(4,652,763)
Changes in temporarily restricted net assets:		
Bequests and contributions	526,195	309,698
Net assets released from restrictions by satisfaction of program restrictions	(1,201,209)	(862,777)
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	1,969,352	(2,189,454)
Increase (decrease) in temporarily restricted net assets	1,294,338	(2,742,533)
Changes in permanently restricted net assets – change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	142,375	36,550
Increase (decrease) in net assets	56,553	(7,358,746)
Net assets:		
Beginning	41,080,649	48,439,395
Ending	\$ 41,137,202	\$ 41,080,649

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended June 30, 2010

	Program Services						
	Training	Independent Living For Youth	Family Life Education	Adoption and Inter-Country Adoption	Pregnancy Counseling/ Support	Home Visitor Service	Early Intervention Services
Salaries	\$ 337,511	\$ 355,491	\$ 1,257,759	\$ 2,895,652	\$ 31,245	\$ 3,956,402	\$ 825,286
Employee benefits	48,849	58,227	200,391	440,682	6,480	713,255	129,243
Payroll taxes and other	36,203	37,426	131,055	299,061	3,166	410,472	84,546
Total salaries and related expenses	422,563	451,144	1,589,205	3,635,395	40,891	5,080,129	1,039,075
Professional fees	1,999	1,219	167,039	69,539	94	147,417	45,009
Supplies	1,793	3,411	19,577	35,969	257	61,547	9,958
Telephone	4,556	11,028	35,585	61,780	635	117,525	17,646
Postage and shipping	239	1,959	4,758	8,738	105	22,990	7,606
Occupancy	9,384	62,030	172,862	428,299	5,181	402,420	188,138
Rental and maintenance of equipment	2,639	20,595	21,010	47,222	203	58,971	9,709
Printing and publications	500	366	5,257	38,403	3	22,427	4,161
Travel	29,471	31,481	83,120	241,389	1,521	303,267	38,591
Conferences, conventions and meetings	3,790	127	9,703	5,665	9	7,727	616
Specific assistance to individuals	26	9,129	64,151	238,850	2	63,921	896,662
Membership dues	7	30	545	1,338	23	2,234	186
Interest	21	92	45	211	-	1,349	-
Insurance	1,646	3,481	11,738	43,411	304	42,445	7,945
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	-	7,717	173,910	104,849	600	322,368	-
Other	7,395	18,847	73,425	92,779	535	71,360	16,425
Total before depreciation and amortization	63,466	171,512	842,725	1,418,442	9,472	1,647,968	1,242,652
Depreciation and amortization	37,784	18,932	13,787	47,961	294	85,752	3,475
Total expenses	\$ 523,813	\$ 641,588	\$ 2,445,717	\$ 5,101,798	\$ 50,657	\$ 6,813,849	\$ 2,285,202

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2010

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 1,082,633	\$ 15,524,873	\$ 9,283,277	\$ 463,090	\$ 642,030	\$ 3,322,644	\$ 1,731,186
Employee benefits	84,981	2,308,889	1,298,553	76,152	129,317	502,872	238,606
Payroll taxes and other	100,383	1,607,891	962,186	48,148	65,360	337,018	181,484
Total salaries and related expenses	1,267,997	19,441,653	11,544,016	587,390	836,707	4,162,534	2,151,276
Professional fees	15,210	183,625	312,395	1,779	2,063	42,792	16,516
Supplies	17,838	111,421	94,114	4,185	7,272	19,870	15,236
Telephone	21,650	368,502	188,794	14,054	20,885	78,460	53,315
Postage and shipping	2,066	44,870	16,428	1,296	1,218	5,428	2,110
Occupancy	395,580	825,999	1,144,781	45,251	124,314	392,445	387,226
Rental and maintenance of equipment	22,119	176,860	107,730	10,895	8,554	44,682	51,628
Printing and publications	1,521	8,152	18,526	726	1,170	5,918	3,794
Travel	21,243	1,483,793	705,184	16,441	54,833	313,235	110,503
Conferences, conventions and meetings	1,155	18,976	22,399	1,339	629	6,103	9,798
Specific assistance to individuals	113,991	1,237,714	565,296	21,710	3,802	118,792	168,338
Membership dues	69	11,914	6,215	8,676	17	317	11,627
Interest	1,873	2	5	-	-	5	16,389
Insurance	8,928	269,680	145,822	4,420	6,655	32,546	21,780
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	700	10,113	43,694	4,929	14,285	114,652	47,762
Other	362,366	284,805	181,883	7,858	10,931	57,157	39,814
Total before depreciation and amortization	986,309	5,036,426	3,553,266	143,559	256,628	1,232,402	955,836
Depreciation and amortization	34,429	110,222	42,544	9,545	2,983	26,538	92,223
Total expenses	\$ 2,288,735	\$ 24,588,301	\$ 15,139,826	\$ 740,494	\$ 1,096,318	\$ 5,421,474	\$ 3,199,335

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2010

	Program Services				Total Program Services	Supporting Services			Total Functional Expenses
	Foster Care Services	Family Visitation Center	Group Care	Community Organization		Management and General	Fund Raising	Total Supporting Services	
Salaries	\$ 3,927,972	\$ 554,922	\$ 4,101,506	\$ 1,009,611	51,303,090	\$ 6,791,122	\$ 1,595,670	\$ 8,386,792	\$ 59,689,882
Employee benefits	567,473	97,581	499,545	132,933	7,534,029	269,270	199,677	468,947	8,002,976
Payroll taxes and other	412,140	56,489	433,019	106,010	5,312,057	687,223	168,466	855,689	6,167,746
Total salaries and related expenses	4,907,585	708,992	5,034,070	1,248,554	64,149,176	7,747,615	1,963,813	9,711,428	73,860,604
Professional fees	284,260	8,473	153,469	175,419	1,628,317	472,645	281,803	754,448	2,382,765
Supplies	39,539	7,972	30,629	17,748	498,336	57,389	42,249	99,638	597,974
Telephone	82,641	24,088	106,987	25,854	1,233,985	328,690	52,449	381,139	1,615,124
Postage and shipping	10,659	1,007	10,167	12,988	154,632	35,909	25,455	61,364	215,996
Occupancy	320,454	91,910	936,680	88,501	6,021,455	(180,389)	153,580	(26,809)	5,994,646
Rental and maintenance of equipment	89,085	18,224	154,104	44,227	888,457	(142,226)	33,878	(108,348)	780,109
Printing and publications	10,650	2,384	6,493	113,697	244,148	44,648	87,300	131,948	376,096
Travel	307,515	34,394	247,265	46,739	4,069,985	416,552	78,605	495,157	4,565,142
Conferences, conventions and meetings	16,516	157	40,235	17,118	162,062	24,728	26,756	51,484	213,546
Specific assistance to individuals	1,346,473	5,750	735,799	11,713	5,602,119	7,650	33,798	41,448	5,643,567
Membership dues	421	234	1,338	4,171	49,362	54,696	6,923	61,619	110,981
Interest	2,686	-	31,814	71	54,563	604,876	37,145	642,021	696,584
Insurance	60,509	6,492	48,496	6,634	722,932	40,028	9,553	49,581	772,513
Provision for bad debt	-	-	-	-	-	(2,025)	-	(2,025)	(2,025)
Contributed goods	80,299	22,005	185,761	1,846	1,135,490	351,500	503,822	855,322	1,990,812
Other	103,442	36,229	207,857	65,323	1,638,431	108,013	652,474	760,487	2,398,918
Total before depreciation and amortization	2,755,149	259,319	2,897,094	632,049	24,104,274	2,222,684	2,025,790	4,248,474	28,352,748
Depreciation and amortization	75,715	26,044	325,046	18,262	971,536	1,362,404	38,790	1,401,194	2,372,730
Total expenses	\$ 7,738,449	\$ 994,355	\$ 8,256,210	\$ 1,898,865	\$ 89,224,986	\$ 11,332,703	\$ 4,028,393	\$ 15,361,096	\$ 104,586,082

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended June 30, 2009

	Program Services						
	Training	Independent Living For Youth	Family Life Education	Adoption and Inter-Country Adoption	Pregnancy Counseling/ Support	Home Visitor Service	Early Intervention Services
Salaries	\$ 1,120,920	\$ 276,425	\$ 1,335,114	\$ 3,628,820	\$ 51,429	\$ 4,120,264	\$ 796,307
Employee benefits	160,807	45,985	199,426	511,709	13,158	680,871	130,779
Payroll taxes and other	106,484	27,674	150,537	362,286	4,264	373,975	64,947
Total salaries and related expenses	1,388,211	350,084	1,685,077	4,502,815	68,851	5,175,110	992,033
Professional fees	3,536	813	168,664	102,828	285	521,513	40,002
Supplies	11,442	2,630	19,953	47,883	446	67,577	9,068
Telephone	14,003	14,043	43,553	91,381	1,861	142,023	18,136
Postage and shipping	1,266	1,373	5,957	13,056	237	16,267	6,947
Occupancy	65,698	37,554	161,558	526,448	11,143	470,575	208,389
Rental and maintenance of equipment	4,151	5,143	34,366	49,423	902	48,308	6,976
Printing and publications	1,830	948	4,506	64,612	-	23,396	5,863
Travel	53,458	22,035	99,431	311,891	3,255	319,647	45,550
Conferences, conventions and meetings	9,773	399	7,357	10,740	45	5,676	167
Specific assistance to individuals	196	22,454	55,975	265,822	39	105,098	706,788
Membership dues	150	7	766	647	17	1,626	110
Interest	(439)	-	40	36	-	1,862	-
Insurance	5,394	2,398	11,762	60,516	844	39,275	7,050
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	150	6,705	99,288	201,476	5,545	202,183	-
Other	7,574	24,303	36,717	117,748	1,406	76,068	22,000
Total before depreciation and amortization	178,182	140,805	749,893	1,864,507	26,025	2,041,094	1,077,046
Depreciation and amortization	53,592	2,806	25,457	60,876	973	52,264	3,985
Total expenses	\$ 1,619,985	\$ 493,695	\$ 2,460,427	\$ 6,428,198	\$ 95,849	\$ 7,268,468	\$ 2,073,064

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2009

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 1,200,963	\$ 15,365,240	\$ 7,154,514	\$ 535,084	\$ 606,907	\$ 3,471,547	\$ 2,532,549
Employee benefits	125,398	2,122,215	1,028,335	78,661	124,161	491,510	350,079
Payroll taxes and other	112,492	1,390,631	640,885	76,851	57,353	395,317	313,141
Total salaries and related expenses	1,438,853	18,878,086	8,823,734	690,596	788,421	4,358,374	3,195,769
Professional fees	96,007	139,661	296,617	26,842	2,194	28,287	55,723
Supplies	25,567	121,683	88,427	4,382	6,163	34,185	18,308
Telephone	32,384	330,825	176,791	18,120	20,170	97,613	87,773
Postage and shipping	2,725	46,468	22,104	1,211	1,569	6,469	5,708
Occupancy	338,617	906,516	1,145,496	59,711	118,060	416,803	542,354
Rental and maintenance of equipment	29,870	166,685	110,713	12,597	9,335	40,833	73,605
Printing and publications	15,748	9,173	11,357	637	1,228	3,480	7,309
Travel	34,780	1,515,729	532,930	29,514	58,610	328,817	128,856
Conferences, conventions and meetings	4,208	16,154	14,861	864	9	9,533	3,868
Specific assistance to individuals	128,176	1,179,437	427,293	28,931	4,831	95,973	240,367
Membership dues	440	4,085	12,148	70	49	282	16,084
Interest	11,741	-	5	-	-	-	25,744
Insurance	12,034	297,787	107,420	5,362	5,722	30,668	32,754
Provision for bad debt	57,980	-	-	-	-	-	-
Contributed goods	2,682	22,237	39,154	12,173	7,616	149,449	71,504
Other	17,255	249,653	108,619	9,359	9,607	69,409	55,257
Total before depreciation and amortization	810,214	5,006,093	3,093,935	209,773	245,163	1,311,801	1,365,214
Depreciation and amortization	17,480	121,647	36,426	10,433	4,162	33,880	135,369
Total expenses	\$ 2,266,547	\$ 24,005,826	\$ 11,954,095	\$ 910,802	\$ 1,037,746	\$ 5,704,055	\$ 4,696,352

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2009

	Program Services					Supporting Services			Total Functional Expenses
	Foster Care Services	Family Visitation Center	Group Care	Community Organization	Total Program Services	Management and General	Fund Raising	Total Supporting Services	
Salaries	\$ 3,995,730	\$ 598,549	\$ 4,530,366	\$ 853,425	52,174,153	\$ 6,557,953	\$ 1,684,308	\$ 8,242,261	\$ 60,416,414
Employee benefits	572,326	106,922	586,056	116,031	7,444,429	1,253,173	224,248	1,477,421	8,921,850
Payroll taxes and other	424,637	57,611	441,199	88,235	5,088,519	606,041	160,402	766,443	5,854,962
Total salaries and related expenses	4,992,693	763,082	5,557,621	1,057,691	64,707,101	8,417,167	2,068,958	10,486,125	75,193,226
Professional fees	290,160	11,663	135,291	53,265	1,973,351	341,262	272,657	613,919	2,587,270
Supplies	39,153	6,266	39,270	13,150	555,553	91,206	40,162	131,368	686,921
Telephone	92,750	23,931	134,650	21,696	1,361,703	468,337	69,789	538,126	1,899,829
Postage and shipping	12,738	1,336	16,459	11,106	172,996	52,400	28,997	81,397	254,393
Occupancy	354,332	125,759	837,045	81,852	6,407,910	(233,144)	207,054	(26,090)	6,381,820
Rental and maintenance of equipment	87,247	12,569	123,938	16,357	833,018	(119,375)	31,427	(87,948)	745,070
Printing and publications	5,863	861	6,113	121,595	284,519	38,716	66,510	105,226	389,745
Travel	306,650	37,360	255,570	24,238	4,108,321	368,552	90,329	458,881	4,567,202
Conferences, conventions and meetings	15,394	362	7,704	9,117	116,231	47,288	31,480	78,768	194,999
Specific assistance to individuals	1,558,747	2,572	693,713	2,620	5,519,032	3,836	40,362	44,198	5,563,230
Membership dues	788	92	980	2,282	40,623	68,044	6,042	74,086	114,709
Interest	2,760	3,678	39,092	2,782	87,301	610,124	(47)	610,077	697,378
Insurance	61,215	6,055	55,351	5,842	747,449	41,283	12,146	53,429	800,878
Provision for bad debt	-	-	-	-	57,980	332,640	-	332,640	390,620
Contributed goods	56,310	31,154	273,097	-	1,180,723	633,354	439,709	1,073,063	2,253,786
Other	98,960	62,380	574,327	73,540	1,614,182	98,805	1,015,406	1,114,211	2,728,393
Total before depreciation and amortization	2,983,067	326,038	3,192,600	439,442	25,060,892	2,843,328	2,352,023	5,195,351	30,256,243
Depreciation and amortization	91,685	33,792	330,220	14,975	1,030,022	1,317,387	45,009	1,362,396	2,392,418
Total expenses	\$ 8,067,445	\$ 1,122,912	\$ 9,080,441	\$ 1,512,108	\$ 90,798,015	\$ 12,577,882	\$ 4,465,990	\$ 17,043,872	\$ 107,841,887

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 56,553	\$ (7,358,746)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	2,360,304	2,368,998
Amortization – other	12,426	23,420
Change in unrealized (appreciation) depreciation of investments	(421,942)	880,764
Change in unrealized loss on interest rate swap	756,755	1,153,400
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	(1,437,654)	2,704,078
Pension related changes other than net periodic benefit cost	2,536,688	2,373,568
Realized loss on the sale of investments	165,747	25,709
Contribution of property and equipment	(35,154)	(197,045)
Loss on sale of property and equipment	31,040	607,922
Provision for doubtful accounts	(2,025)	390,620
Changes in operating assets and liabilities:		
Accounts receivable	(539,785)	746,710
Prepaid expenses and other assets	245,494	25,469
Accounts payable	496,112	140,479
Accrued expense	(66,591)	(741,037)
Deferred revenue and other liabilities	522,453	83,169
Pension liability	(475,149)	(1,362,720)
Net cash provided by operating activities	4,205,272	1,864,758
Cash Flows From Investing Activities		
Decrease in restricted cash and certificate of deposit	1,944,594	1,164,613
Purchases of property and equipment	(3,941,414)	(2,569,602)
Proceeds from sale of property and equipment	75,000	27,065
Proceeds from sale of investments	676,254	911,776
Purchases of investments	(603,518)	(1,248,856)
Net cash used in investing activities	(1,849,084)	(1,715,004)
Cash Flows From Financing Activities		
Principal payments on capital lease obligations	(231,040)	(263,656)
Proceeds from long-term debt	922,050	-
Principal payments on long-term debt	(2,088,795)	(272,790)
Net cash used in financing activities	(1,397,785)	(536,446)
Net increase (decrease) in cash and cash equivalents	958,403	(386,692)
Cash and cash equivalents:		
Beginning	12,322,177	12,708,869
Ending	\$ 13,280,580	\$ 12,322,177

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2010 and 2009

	2010	2009
<hr/>		
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest, net of \$59,698 and \$161,288 capitalized interest for the years ended June 30, 2010 and 2009, respectively	<u>\$ 698,006</u>	<u>\$ 732,220</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Property and equipment included in accounts payable	<u>\$ 84,707</u>	<u>\$ 288,838</u>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization, Principles of Consolidation and Significant Accounting Policies

Nature of organization: The Children's Home Society of Florida and Subsidiaries (collectively CHS) is a not-for-profit organization, which provides effective solutions to build and support healthy families for Florida's children.

Principles of consolidation: The consolidated financial statements of CHS include the accounts of CHS and Centennial Holdings, LLC (Centennial), Centennial Holdings – Treasure Coast, LLC (Treasure Coast), Centennial Holdings North Central, LLC (North Central), ECIL Capital, LLC (ECIL), Centennial Holdings Southwest, LLC (Southwest), Centennial Holdings Collier Childcare, LLC (Collier), and Children's Home Society Early Learning Initiatives, LLC (Early Learning), each a wholly owned subsidiary of CHS. Centennial was incorporated on August 11, 2003, for the purpose of holding certain real estate assets. Treasure Coast was incorporated on May 11, 2005, for the purpose of holding certain real estate assets. North Central was incorporated on June 22, 2006, for the purpose of holding certain real estate assets. ECIL was incorporated on June 22, 2006, for the purpose of holding office furniture and equipment. Southwest was incorporated on March 19, 2007, for the purpose of holding certain real estate assets. Collier was incorporated on August 30, 2007, for the purpose of holding certain real estate assets. Early Learning was incorporated on August 30, 2007, for the purpose of providing child day care services. All intercompany balances have been eliminated in consolidation.

A summary of CHS' significant accounting policies follows:

Basis of presentation: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

A not-for-profit organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, net assets of CHS and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met, either by actions of CHS and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that will not be met by either the actions of CHS or the passage of time.

Cash and cash equivalents: For purposes of reporting on the statements of cash flows, CHS considers demand accounts and money market accounts to be cash and money market funds to be cash equivalents. Cash and cash equivalents excludes restricted cash and certificate of deposit. Certain amounts exceeding the \$250,000 Federal Deposit Insurance Corporation (FDIC) limits were insured under the FDIC Temporary Liquidity Guarantee Program.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization, Principles of Consolidation and Significant Accounting Policies (Continued)

Restricted cash and certificate of deposit: Restricted cash and certificate of deposit held by CHS are restricted to specific programs and bond proceeds received for the construction of facilities.

Investments and investment income: Investments are reported at fair value (see Note 6). Realized gains and losses are recorded at date of disposition based on the difference between the net proceeds and the cost of the investments sold, using the specific identification method. Unrealized gains and losses are reported for the changes in fair value between reporting periods. Interest and dividend income is recognized when earned. Investment income is reported within unrestricted net assets unless their use is temporarily restricted by explicit donor stipulations (see *Basis of Presentation*).

Property and equipment: Property and equipment is capitalized at cost when purchased, or at fair value at the date of gift, if contributed. Depreciation is computed on the straight-line method of accounting over the estimated useful lives of the assets. The lives of the various assets range from 3 to 40 years. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gain or loss is recognized. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of leasehold improvements on leased office space is capitalized and amortized using the straight-line method of accounting over the term of the lease, or the useful life of the improvement, whichever is shorter.

Assets held under capital leases are recorded at the lower of the fair market value of the asset or the present value of future minimum lease payments and are amortized using the straight-line method of accounting over their estimated useful lives.

Impairment of long-lived assets: The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. CHS believes no impairment of its long-lived assets existed at June 30, 2010 and 2009.

Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. (Foundation): In accordance with guidance related to accounting for contributions held by an organization for the benefit of another organization, CHS recognizes its interest in the net assets of the Foundation in its consolidated financial statements. Distributions from the Foundation are reported as a reduction in the beneficial interest and the change in residual value of temporarily or permanently restricted net assets of the Foundation are reported as change in beneficial interest in the consolidated statement of activities.

Deferred revenue and other liabilities: Funds received for programs that have not been started or have not met the requirements for recognizing revenue based on services performed are recorded as deferred revenue. Other liabilities consist primarily of reserves for potential Medicaid audit adjustments.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization, Principles of Consolidation and Significant Accounting Policies (Continued)

CHS receives certain service contract revenues from public agencies, which are recorded on an accrual basis at the net realizable amounts estimated to be received. Revenues from public agencies are subject to periodic audit and retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the year the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Public support and revenue recognition: CHS recognizes contributions received, including unconditional promises to give, as assets and revenue in the period received at their fair values. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets are reported as either temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of such assets. When donor restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions by satisfaction of program restrictions.

Revenue from service contracts: CHS is principally funded by public agencies. These public agency contracts are fixed fee or are cost reimbursement contracts. Revenue for fixed fee contracts are recognized upon CHS providing services. Revenue from cost reimbursement contracts are recognized when eligible costs are incurred.

Adoptive and other service fees: Revenue from adoptive and other service fees are recognized when services are provided.

Contributed services: Contributed services are reported at fair value in the financial statements for voluntary donations of services only to the extent they create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donations. Contributed services recognized in the consolidated statements of activities were approximately \$148,700 and \$238,700 for the years ended June 30, 2010 and 2009, respectively, which is included in bequests, contributions and special events in the accompanying consolidated statements of activities.

Derivatives: CHS recognizes all derivatives in the consolidated statements of financial position at fair value, which is included as a component of accrued expenses. CHS has two interest rate swap agreements in place at June 30, 2010 and 2009. These interest rate swap agreements have been designated as cash flow hedges against variable interest rate exposure on a portion of its debt, with the objective of minimizing the impact of interest rate fluctuations and stabilizing cash flows.

Functional expenses: The cost of providing various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Organization, Principles of Consolidation and Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes: CHS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Statutes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying consolidated financial statements.

CHS adopted accounting standards relating to accounting for uncertainty in income taxes for the year ended June 30, 2010. As a result of this adoption, CHS assessed whether there were any uncertain tax positions which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying consolidated financial statements. CHS files tax returns in the U.S. federal jurisdiction. With few exceptions, CHS is no longer subject to U.S. federal income tax examinations by taxing authorities for years before June 30, 2007.

Fair value of financial instruments: At June 30, 2010 and 2009, CHS' financial instruments consist of cash and cash equivalents, accounts receivable, investments, restricted cash and certificate of deposit, accounts payable, interest rate swaps, bonds payable, and other borrowings. The fair values of CHS' financial instruments excluding interest rate swaps, bonds payable, other borrowings and investments approximate their fair values because of the short-term nature of these instruments. Investments are stated at fair value based on quoted market prices. The fair value of CHS' interest rate swap contracts (used for purposes other than trading) is the estimated amount CHS would pay to terminate these agreements at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of CHS for liabilities. Interest rate swaps are recorded at fair value and therefore, carrying values equal fair value in the accompanying consolidated financial statements. Borrowings at variable interest rates are estimated by management to be at the fair value due to the floating interest rate based on market factors. Notes payable at fixed rates are not materially different from fair value based upon maturities and similar credit risk comparisons available to CHS at June 30, 2010 and 2009.

Recent accounting pronouncements: The Financial Accounting Standards Board and other entities issued new or modifications to, or interpretations of, existing accounting guidance during fiscal year 2010. CHS has considered the new pronouncements that altered accounting principles generally accepted in the United States of America, and other than as disclosed in these notes to the consolidated financial statements, does not believe that any other new or modified principles will have a material impact on CHS' reported financial position or activities in the near term.

Subsequent events: Management has assessed subsequent events through October 29, 2010, the date the consolidated financial statements were available to be issued.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of June 30, 2010 and 2009, are available for the following purposes:

	2010	2009
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 5,390,993	\$ 4,095,714
Henry Training Fund	305,212	305,689
Children's Emergency Medical Services	233,012	233,375
Joshua House	60,688	60,783
President's Scholarship Fund	3,851	3,857
	<u>\$ 5,993,756</u>	<u>\$ 4,699,418</u>

As of June 30, 2010 and 2009, net assets of \$1,201,209 and \$862,777, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Permanently restricted net assets of \$7,739,367 and \$7,596,992 at June 30, 2010 and 2009, respectively, represents the beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. and consists primarily of endowments whereby the principal is permanently restricted in accordance with donor stipulations.

Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2010 and 2009:

	2010	2009
Community based care	\$ 7,448,963	\$ 6,202,044
Government contracts	2,184,001	2,748,027
Pledges	937,628	1,307,063
Medicaid	557,143	844,053
Other	1,564,529	1,295,918
Adoptive fees	48,895	47,821
	<u>\$ 12,741,159</u>	<u>\$ 12,444,926</u>
Less allowance for doubtful accounts	(356,145)	(582,616)
Less discount for time-value of money	(27,240)	(46,346)
	<u>\$ 12,357,774</u>	<u>\$ 11,815,964</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Accounts Receivable (Continued)

Pledges that are included above and are considered unconditional promises to give at June 30, 2010 and 2009 are summarized as follows:

	2010	2009
Amounts due:		
Within one year	\$ 426,895	\$ 659,970
One to five years	507,133	591,358
More than five years	3,600	55,735
	<u>937,628</u>	<u>1,307,063</u>
Less allowance for doubtful accounts	(84,386)	(117,636)
Less discount for time-value of money	(27,240)	(46,346)
	<u>\$ 826,002</u>	<u>\$ 1,143,081</u>

Note 4. Investments

Investments consisted of the following at June 30, 2010 and 2009:

Description	2010		
	Cost	Net Unrealized (Loss) Gain	Fair Value
Equity securities	\$ 3,167,718	\$ (96,045)	\$ 3,071,673
Corporate bonds	903,194	63,771	966,965
U.S. Government obligations	1,095,979	73,925	1,169,904
	<u>\$ 5,166,891</u>	<u>\$ 41,651</u>	<u>\$ 5,208,542</u>
	2009		
Description	Cost	Net Unrealized (Loss) Gain	Fair Value
Equity securities	\$ 2,916,963	\$ (427,301)	\$ 2,489,662
Corporate bonds	765,036	(658)	764,378
U.S. Government obligations	1,723,375	47,668	1,771,043
	<u>\$ 5,405,374</u>	<u>\$ (380,291)</u>	<u>\$ 5,025,083</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2010 and 2009:

	2010	2009
Land	\$ 5,235,302	\$ 5,235,302
Buildings and improvements	36,965,837	32,405,584
Furniture and equipment	18,947,895	18,483,948
Leasehold improvements	1,075,875	1,016,789
Construction in progress	20,548	1,898,596
	<u>62,245,457</u>	<u>59,040,219</u>
Less accumulated depreciation	(23,816,904)	(21,841,855)
	<u>\$ 38,428,553</u>	<u>\$ 37,198,364</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2010 and 2009, was approximately \$2,360,000 and \$2,369,000, respectively.

Note 6. Fair Value Measurements

CHS follows accounting standards relating to fair value measurements which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The accounting standards relating to fair value measurements establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels are defined as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

The table below represents CHS's financial assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of June 30, 2010 and 2009:

	2010			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Equity securities	\$ 3,071,673	\$ -	\$ -	\$ 3,071,673
Corporate bonds	961,077	5,888	-	966,965
U.S. Government obligations	109,372	1,060,532	-	1,169,904
	<u>\$ 4,142,122</u>	<u>\$ 1,066,420</u>	<u>\$ -</u>	<u>\$ 5,208,542</u>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 3,017,255	\$ -	\$ 3,017,255
	2009			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Equity securities	\$ 2,489,662	\$ -	\$ -	\$ 2,489,662
Corporate bonds	753,725	10,653	-	764,378
U.S. Government obligations	104,650	1,666,393	-	1,771,043
	<u>\$ 3,348,037</u>	<u>\$ 1,677,046</u>	<u>\$ -</u>	<u>\$ 5,025,083</u>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 2,260,500	\$ -	\$ 2,260,500

CHS has determined the estimated fair value amounts presented in these accompanying consolidated financial statements using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in these accompanying consolidated financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. CHS bases these fair value estimates on pertinent information available to them as of the end of each reporting period or at the time such amounts are recorded.

The fair value of CHS' interest rate swap contracts (used for purposes other than trading) is the estimated amount CHS would pay to terminate these agreements at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of CHS for liabilities.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

Interest rate swap contracts carried at fair value are classified as Level 2 as their market value is based on observable market based inputs or unobservable inputs that are corroborated by market data. In determining the appropriate levels, CHS performs an analysis of the liabilities that are subject to fair value measurements.

Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2010 and 2009:

	2010	2009
Accrued salaries and benefits	\$ 5,787,782	\$ 5,077,237
Accrued vacation	2,010,867	2,448,320
Fair value of interest rate swap	3,017,255	2,260,500
Other	229,548	569,231
	<u>\$ 11,045,452</u>	<u>\$ 10,355,288</u>

CHS has a workers' compensation indemnity policy, whereby, CHS is responsible for the first \$300,000 of bodily injury due by accident or disease and \$850,000 for all bodily injury in the aggregate during the policy year, ending June 30th of each year. Included in accrued salaries and benefits is a workers' compensation liability, which represents the estimated amount due for open claims and claims incurred but not reported, totaling \$1,126,510 and \$938,487 at June 30, 2010 and 2009, respectively.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt and Line of Credit

Long-term debt and line of credit consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Bonds payable dated April 1, 2008, with an original principal balance of \$16,680,000. The bonds bear interest at a variable interest rate based on the one-month LIBOR interest rate (.35% at June 30, 2010). However, CHS entered into two interest rate swap agreements that fixed the interest rate at 4.39% and 3.20% (see swap agreement disclosure below), which have a maturity date of May 1, 2038. The bonds are redeemable by CHS in whole or in part, and call for quarterly partial redemption payments deposited into an escrow account. The bonds are collateralized by a letter of credit (see Note 9).	\$ 16,075,000	\$ 16,335,000
Note payable dated January 5, 2005, with an original balance of \$2 million to finance eleven residential real estate properties. The note bears a fixed rate of interest at 7.25% and payments of principal and interest are due monthly. The note was collateralized by the eleven real estate properties located in the Miami-Dade, Florida area. The note was paid off in January 2010.	-	1,825,362
Mortgage payable with an original balance of \$247,000 dated November 15, 2005, payable to a bank; fixed rate of interest at 6.5%. Principal and interest payments are due monthly and the mortgage matures in November 2035. The mortgage is collateralized by property in Callaway, Florida.	232,964	236,397
Note payable to the City of Jacksonville, Florida, to finance construction of transitional housing for youths aging out of foster care. The note is non-interest bearing and matures in March 2025. As described in the note agreement, if there is no uncured event of default upon the maturity date, then the outstanding balance will be forgiven and cancelled by the City of Jacksonville. At the time of debt forgiveness, CHS will recognize a gain in the consolidated statements of activities equal to the outstanding debt balance. The note is collateralized by property in Jacksonville, Florida.	740,822	-
Note payable to the Florida Housing Finance Corporation to finance construction of transitional housing for youths aging out of foster care. The note is non-interest bearing and matures in March 2024, at which time, the entire unpaid principal is due and payable. The note is collateralized by property in Jacksonville, Florida.	181,228	-
	<u>\$ 17,230,014</u>	<u>\$ 18,396,759</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt and Line of Credit (Continued)

Maturities of long-term debt as of June 30, 2010 are as follows:

Year Ending June 30,	Amount
2011	\$ 278,666
2012	293,915
2013	304,181
2014	319,466
2015	339,769
Thereafter	15,694,017
	<u>\$ 17,230,014</u>

Effective October 2005 and April 2008, CHS entered into two interest rate swap agreements with a notional amount that decreases every six months (\$8,585,000 and \$7,490,000, respectively, at June 30, 2010). Under the terms of the agreements, CHS owes interest calculated at a fixed interest rate of 4.39% and 3.20%, respectively, and receives interest calculated at a variable rate based on the one-month LIBOR interest rate (.35% at June 30, 2010). The swap agreements terminate in May 2032 and May 2038, respectively. For the years ended June 30, 2010 and 2009, the interest rate swaps had a total negative fair value of \$3,017,255 and \$2,260,500 (see Note 9), respectively, resulting in a loss of \$756,755 and \$1,153,400, respectively, which is reflected in the accompanying consolidated statements of activities.

At June 30, 2010, CHS has a \$4,000,000 revolving line of credit with a financial institution. Interest is based on the one-month LIBOR interest rate plus 0.75% (1.10% at June 30, 2010), paid monthly. This line of credit expires on July 31, 2011 and is collateralized by certain investments referred to in Note 4, which have a fair market value of approximately \$5,209,000 at June 30, 2010. There was no outstanding balance on the line of credit at June 30, 2010 and 2009.

Note 9. Letter of Credit

CHS entered into a letter of credit agreement for \$17,022,740 to support the \$16,680,000 bonds payable (see Note 8). The letter of credit, if drawn, bears interest at 15% per annum. As of June 30, 2010 and 2009, no amount has been drawn on the letter of credit. The letter of credit will automatically renew annually unless CHS is notified 90 days prior to expiration, which the earliest date would be March 31, 2011 or not extended beyond May 1, 2038.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Commitments

Leases: CHS leases equipment under capital leases expiring at various dates through July 2012. The leased assets are included in the consolidated statements of financial position as part of property and equipment at a cost of \$889,627 and \$927,700 with accumulated amortization of \$796,577 and \$619,724 as of June 30, 2010 and 2009, respectively. Amortization of these assets held under capital leases is included with depreciation expense and was \$213,656 and \$239,745 for the years ended June 30, 2010 and 2009, respectively.

Certain premises used by operating divisions are occupied under operating leases, ranging up to seven years. Rent expense under all leases was approximately \$3,277,000 and \$3,282,000 for the years ended June 30, 2010 and 2009, respectively.

Future minimum lease payments under capital and operating leases together with the present value of the net minimum lease payments as of June 30, 2010 are as follows:

Year Ending June 30,	Capital Leases	Operating Leases
2011	\$ 109,562	\$ 2,890,653
2012	32,866	2,467,256
2013	692	2,073,744
2014	-	1,933,629
2015	-	1,761,560
Thereafter	-	1,621,633
Total minimum lease payments	143,120	\$ 12,748,475
Less amounts representing interest, with annual interest rates ranging from 5.7% to 18.1%	(7,872)	
Present value of minimum capital lease payments	\$ 135,248	

Note 11. Retirement Plans

Certain employees of CHS participate in a noncontributory Annuity Benefit Retirement Plan (the Plan) administered by CHS. The Plan provides for defined benefits and covers substantially all employees with more than one year of service and a minimum age of twenty-one years. Benefits are based on years of service and the employee's final average compensation as defined under the Plan. CHS' funding policy is to contribute annually amounts based on the actuarial status of the Plan, but not less than that necessary to meet minimum regulatory funding standards. Plan assets consist of investments in a variety of fixed income and equity securities. Foster and Foster, Inc. serves as the Plan's actuary.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

The following tables provide a reconciliation of the changes in the Plan's benefit obligations and fair value of assets over the two-year period ended June 30, 2010, and a statement of the funded status as of June 30, 2010 and 2009:

Reconciliation of benefit obligation:

	2010	2009
Accumulated benefit obligation at end of year	<u>\$ 31,359,360</u>	<u>\$ 25,845,862</u>
Projected benefit obligation at beginning of year	\$ 25,845,862	\$ 27,378,673
Interest cost	1,591,544	1,890,115
Actuarial loss (gain)	4,584,431	(1,344,680)
Benefit payments	(662,477)	(2,078,246)
Projected benefit obligation at end of year	<u>\$ 31,359,360</u>	<u>\$ 25,845,862</u>

On June 22, 2007, the Board of Directors approved a motion to freeze employee accrual of benefits under the Plan effective September 30, 2007, at which time, employees shall not accrue any further benefits after such date.

	2010	2009
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 16,685,722	\$ 19,229,381
Actual return on plan assets	2,407,354	(3,317,074)
Employer contributions	1,707,082	2,851,661
Benefit payments	(662,477)	(2,078,246)
Fair value of plan assets at end of year	<u>\$ 20,137,681</u>	<u>\$ 16,685,722</u>
Funded status at end of years	<u>\$ (11,221,679)</u>	<u>\$ (9,160,140)</u>

Amounts recognized in the consolidated statements of financial position consisted of the following as of June 30, 2010 and 2009:

	2010	2009
Intangible asset	\$ 22,665	\$ 32,741
Pension liability	(11,221,679)	(9,160,140)
Net liability	<u>\$ (11,199,014)</u>	<u>\$ (9,127,399)</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

Pension related changes other than net periodic benefit cost for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Net actuarial loss	\$ 3,497,451	\$ 3,549,206
Amortization of actuarial loss	(928,032)	(393,120)
Amortization of prior service cost	(32,731)	(10,079)
Settlement expense	-	(772,439)
Pension related changes other than net periodic benefit cost	\$ 2,536,688	\$ 2,373,568

The table below represents CHS' pension plan assets measured at fair value by level within the hierarchy (see Note 6) as of June 30, 2010 and 2009:

	2010			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Common stocks	\$ 10,866,820	\$ -	\$ -	\$ 10,866,820
Debt securities:				
Money market fund	-	1,391,989	-	1,391,989
Corporate and foreign bonds	-	6,871,599	-	6,871,599
Municipal bonds	-	539,657	-	539,657
U.S. treasury obligations	467,616	-	-	467,616
	\$ 11,334,436	\$ 8,803,245	\$ -	\$ 20,137,681
	2009			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Common stocks	\$ 3,650,343	\$ -	\$ -	\$ 3,650,343
Mutual fund	2,439,662	-	-	2,439,662
Debt securities:				
Money market fund	-	4,245,301	-	4,245,301
Corporate and foreign bonds	-	1,775,178	-	1,775,178
U.S. treasury obligations	4,575,238	-	-	4,575,238
	\$ 10,665,243	\$ 6,020,479	\$ -	\$ 16,685,722

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

CHS' pension plan weighted-average asset allocations at June 30, 2010 and 2009, by asset category are as follows:

	Target	Percentage of Plan	
	Allocation	Assets at June 30,	
	2011	2010	2009
Equity securities	55%	55%	48%
Debt securities	45%	45%	52%
	100%	100%	100%

Expected return on plan assets: The expected rate of return on Plan assets is 8.0%. CHS expects 8.0% to fall within the 50 to 60 percentile rate of returns on investment portfolios with asset diversification similar to that of the pension plan's largest asset allocation.

Investment policy and strategy: The primary investment objectives of the Plan's investment pool are to preserve the purchasing power of assets and earn a reasonable real rate of return over the long-term while minimizing the short-term volatility of results.

The components of net periodic benefit cost for the Plan's fiscal years 2010 and 2009 are as follows:

	2010	2009
Interest cost	\$ 1,591,544	\$ 1,890,115
Expected return on plan assets	(1,320,374)	(1,576,812)
Amortization of actuarial loss	928,032	393,120
Amortization of prior service cost	32,731	10,079
Settlement expense	-	772,439
Net periodic benefit cost	\$ 1,231,933	\$ 1,488,941

The net periodic benefit cost has been allocated over program services expense in the accompanying consolidated statements of activities.

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

Expected contributions for fiscal year ending June 30, 2011 are \$1,700,000.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

Estimated future benefit payments reflecting expected future service are as follows:

Year Ending June 30,	Amount
2011	\$ 1,356,253
2012	1,216,650
2013	2,097,203
2014	1,557,815
2015	1,327,762
2016 – 2020	9,143,783

The assumptions used in the measurement of CHS' benefit obligation are shown in the following table:

	2010	2009
Weighted-average assumptions as of June 30:		
Discount rate	5.25%	6.30%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.25%	4.25%
	2010	2009
Alternative amortization methods used to amortize:		
Prior service cost	Straight-line	Straight-line
Unrecognized net (gain) or loss	Straight-line	Straight-line
Measurement date used	June 30, 2010	June 30, 2009

Additionally, CHS has a 403(b) thrift plan for eligible employees. Employees may make voluntary contributions up to the federal limits. CHS makes matching contributions equal to 100% of employee contributions up to 3% of included compensation. In addition, CHS makes an employer contribution to employees' accounts at 1% after 3 years of service, 2% after 5 years of service, 3% after 7 years of service and 4% after 9 years of service. Employer contributions vest at 100% after 3 years of service. Employer contributions were approximately \$1,425,900 and \$1,381,700, respectively, for the years ended June 30, 2010 and 2009.

CHS also has a 457(b) thrift plan for eligible employees. Eligible employees may make voluntary contributions from accumulated vacation pay in excess of 240 hours before deferral, but limited each plan year to deferral contributions equal to no more than 80 hours of accumulated vacation pay. CHS makes non-elective contributions annually to the plan. Employer contributions vest at 25% immediately upon contribution, 50% for the 1st year of service, 75% for the 2nd year of service, and 100% for the 3rd year of service. Employer contributions were approximately \$107,000 and \$100,300, respectively, for the years ended June 30, 2010 and 2009.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

In October 2007, CHS adopted a 457(f) deferred compensation plan for eligible employees. Contributions to the plan may be made by employee deferrals, employer match, and/or discretionary employer contributions. The employer match and discretionary contribution vest immediately upon contribution. There were no employer contributions during the years ended June 30, 2010 and 2009.

Note 12. Litigation

CHS is engaged in various legal proceedings incidental to its normal business activities. Such proceedings primarily consist of alleged discriminatory labor practices and professional services. In the opinion of management, based on the advise of legal counsel, the amount of ultimate liability with respect to these actions will not materially affect the financial position of CHS.

Note 13. Beneficial Interest in the Net Assets of The Children's Home Society of Florida Foundation, Inc.

At June 30, 2010 and 2009, CHS's beneficial interest in the net assets of the Foundation was \$13,130,360 and \$11,692,706, respectively, which is included in the consolidated statements of financial position. The temporarily restricted net assets change in beneficial interest in the net assets of the Foundation was \$1,969,352 and \$(2,189,454), net of distributions of \$674,073 and \$551,174, for the years ended June 30, 2010 and 2009, respectively, which is included in the accompanying consolidated statements of activities. The permanently restricted net assets change in beneficial interest in the net assets of the Foundation was \$142,375 and \$36,550 for the years ended June 30, 2010 and 2009, respectively, which is included in the accompanying consolidated statements of activities.

**Independent Auditor's Report
on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Audit Committee
The Children's Home Society of Florida
Winter Park, Florida

We have audited the consolidated financial statements of The Children's Home Society of Florida as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Children's Home Society of Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Children's Home Society of Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Children's Home Society of Florida's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Children's Home Society of Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Orlando, Florida
October 29, 2010